

**Statement of**  
**John Hofmeister**  
**Shell Oil Company**

**before the**

**HOUSE GOVERNMENT REFORM SUBCOMMITTEE ON  
ENERGY & RESOURCES  
UNITED STATES HOUSE OF REPRESENTATIVES**

**OVERSIGHT HEARING ON**

**“Absence of Price Thresholds in Deepwater  
Leases”**

**Wednesday, June 21, 2006  
Washington, DC**

Good Morning. My name is John Hofmeister. I am the President of Shell Oil Company, the U.S. arm of Royal Dutch Shell Plc. Shell is an integrated oil and gas company that is dedicated to meeting the challenge of growing world demand for energy efficiently, profitably and responsibly. Shell puts sustainability, the search for viable new energy sources and the application of innovative technologies at the heart of how we do business. We are dedicated to growing the North American energy supply. Our commitment is underpinned by a history of investing billions of dollars every year in the development of future domestic energy sources and defining new frontiers.

Shell is pleased to testify before the Subcommittee today regarding price thresholds in deepwater leases. Since its inception in the mid 1990s, Shell has been a proponent of the Deepwater Royalty Relief Act (DWRR) as a way to encourage investment in the emerging deepwater Gulf of Mexico. The DWRR provided a great benefit to the nation by encouraging the exploration and development of oil and gas leases by making them more economically attractive. It was enacted at a time when the uncertainty of the technology and the size of capital investment required huge corporate commitments to make these leases successful and productive.

For example, even in the 1990s the exploration and development of these leases required a billion dollar plus investment. A single exploratory well – not necessarily productive – involved costs in the fifty million dollar range. This incentive was successful in attracting capital to the development of this important source of domestic energy.

Shell is a proponent of price thresholds on deepwater royalty relief. We supported price thresholds on relief when the Act was being drafted and continue to support them today. Shell does not believe deepwater royalty relief is necessary in the current commodity price environment. However, if prices fall, the economics of deepwater projects would change and deepwater royalty relief might be necessary again to encourage leasing in the deepwater.

OCS leases are not negotiated by lessees. MMS drafts and publishes a standardized lease form to be used in the OCS. A lessee must either accept the lease as drafted or forfeit the lease and deposit. Therefore, when leases are awarded the lessee must execute the lease and return it within the time specified. There is no negotiation but only an award of a lease to the highest qualified bidder. Shell's policy is to pay royalties due by lease and regulation.

Shell does not contest the application of price thresholds to deepwater leases. We are not a party to the litigation on price thresholds. We paid royalties for deepwater leases for the years 1996, 1997 and 2000 when the price thresholds have been exceeded. Shell holds 73 deepwater leases that were acquired in 1998 and 1999 lease sales. Four of the 73 leases are producing.

MMS Director Burton stated last week the government made an administrative error by omitting price thresholds in the 1998 and 1999 deepwater royalty leases. Shell stands ready to work with MMS and Congress to address this issue. In fact, Thursday of last week Shell sent Director Burton a letter expressing our willingness to "make a change" in our 1998 and 1999 leases by considering the addition of price thresholds. I would like to submit a copy of that letter for the record. We met with her yesterday to begin those discussions. In addition, we have expressed our desire to resolve the issue to members of the House and Senate.

Mr. Chairman we agree with you that it is time to resolve this issue. Shell strongly believes in the sanctity of contracts and would oppose unilateral modification of legally binding contracts. We support price thresholds for Deepwater Royalty Relief Act leases.

Mr. Chairman, this concludes my remarks. I am available to answer any questions you or members of the committee might have.



## Shell Exploration & Production

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By Fax: 202-208-3619

Ms. Johnnie Burton  
Director, Minerals Management Service  
U.S. Department of the Interior  
1849 C Street NW, Room 6613  
Washington, DC 20240

Re: Deepwater Leases issued in 1998-99

Dear Madame Director:

You made a public statement today regarding the 1998 and 1999 deepwater leases in the Gulf of Mexico. Specifically, you said that those leases are valid contracts, but that an error was made in omitting the provision for price thresholds. Further, you said that MMS would like to meet with any company willing to discuss the issue and correct the error.

Shell believes the sanctity of contracts is paramount and therefore would oppose a unilateral change to an existing contract. However, where an obvious error has occurred, and both parties are willing to review the contract and consider possible modifications to correct the error, we believe such discussions are appropriate. Therefore, Shell is interested in meeting with you on this matter.

Shell supports price thresholds for all deepwater royalty relief leases. Under the current commodity price environment, deepwater royalty relief is not necessary. However, if prices fell back significantly, the economics of deepwater projects would change and deepwater royalty relief might be justified to continue development necessary to meet the nation's energy needs.

We propose a meeting in Washington next Wednesday, June 21, to pursue this important issue.

Sincerely,

Marvin Odum